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SIPDIS

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TAGS: [EAID](#) [ECON](#) [PGOV](#) [BG](#)

SUBJECT: IMF REP FEARS BDG IS LETTING PRGF PROGRAM DIE

Classified By: P/E Counselor D.C. McCullough, reason para 1.5 b.

¶1. (C) Summary. The IMF rep says the BDG has decided that letting the PRGF die is cheaper than the political and huge financial costs of privatizing the first state-owned bank. He wants key embassies to urge the BDG to reconsider but is not hopeful that the PRGF can be saved. End Summary.

¶2. (SBU) On January 27, we met with Jonathan Dunn, the recently-arrived IMF Resident Representative, to discuss the status of Bangladesh's Poverty Reduction and Growth Facility (PRGF) program.

¶3. (C) The IMF team visit to Bangladesh in October went well, Dunn recalled. Reforms in tax administration were progressing and the BDG committed to proceeding with the privatization of Rupali Bank, the first and smallest of the four public sector banks slated for sale. But in December, "the Bangladeshis got sticker shock." They realized that to recapitalize the bank fully in preparation for sale, after 30 years of mismanagement and corruption, it would cost USD 500 million, about twice what they had expected. Another problem, Dunn said, is BNP MP Hafiz Ibrahim, a Bank minority shareholder whose brother is a friend of Tariq Rahman, the PM's son. Ibrahim, valuing his access to the bank's cash flow generated largely by remittances, is adamantly against the privatization, and obtained a court injunction against BDG "interference" with the bank. "They're generating new bad loans every day," Dunn said. "If there were a run on these state banks, the government would fall. They would need USD 700 million that they don't have."

¶4. (C) Dunn said that the finance secretary told him Finance Minister Rahman has concluded that this is not a deal he could sell to the cabinet. In addition to the huge recapitalization cost, there would be the political pain in the run-up to an election of laying off one third of the bank's staff.

¶5. (C) The BDG, Dunn believes, has thus consciously decided it prefers to lose the PRGF and associated budget support financing from other donors than paying the price and implementing the reforms needed to sustain the PRGF. Revenue collection in recent months is also faltering, and there will be great political pressure on the BDG to award new pay recommendations from the civil service pay commission that it cannot afford. "And there's no more scope for bank lending," he said.

¶6. (C) Dunn asked the USG to urge Finance Minister Rahman to reconsider his decision. He doubts Rahman would budge, but fears that without BDG movement before the next IMF team comes at the end of February, the PRGF would start a slow death until its formal expiration in June 2006. Asked about his own future, Dunn noted that the IMF has had an office in Bangladesh since 1972, with or (usually) without a Fund program, so he has every expectation of serving a normal tour of duty.

¶7. (C) According to Dunn, if the PRGF goes off the rails, World Bank project financing would continue but direct budget support would stop.

¶8. (C) Comment: Dunn's concerns about the PRGF and his approach to key donor embassies have made the local press. He gives the Finance Ministry credit for being honest about its inability to proceed, but is clearly disappointed by recent developments. In appropriate BDG meetings, we will underscore the PRGF's value to Bangladesh and express the hope that the BDG can find a way to keep it alive.  
THOMAS